

FDIC State Profile

Spring 2005

Maine

Revised employment data indicate the economy performed better in Maine than originally reported.

- The new seasonally adjusted payroll employment data show that the recovery from the end of the recession has been slightly greater and much smoother than first reported.¹ Notably, the previously reported early-year 2004 weakness in employment growth has been revised away (See Chart 1).
- Other new estimates covering 2004 show that the unemployment rate for Maine was raised slightly from an average of 4.5 percent for the year to 4.6 percent. Monthly levels for 2003 and 2004 have been smoothed as well, although the increase in unemployment originally reported during the summer of 2004 is still evident (See Chart 2).

The new payroll data reveal that by year-end 2003 Maine had recovered all of the jobs lost during the recession; the gains during 2004 represent additions to total employment.

- Maine suffered the fewest job losses during the recession, in terms of percentages, of all the New England states. From the peak in June 2001 through the trough in March 2003, job losses in Maine totaled 6,400 after seasonal adjustment, or just 1 percent. This is only one-half of the percentage nationally of jobs lost and well below the 6 percent loss in Massachusetts.
- Revised data show that payroll employment in Maine grew by 1 percent during 2004, implying a new record level of employment. Employment growth in the state is similar to the growth in New England as a whole and compares with an increase nationally of 1.7 percent.
- Manufacturing in Maine continues to suffer, although this employment category recently has stabilized at lower levels. Like the nation, almost all of the gains in employment over the past year occurred in the service sector.

Chart 1: Payroll Employment Revised Significantly Higher as Gains Continue Through Year-End

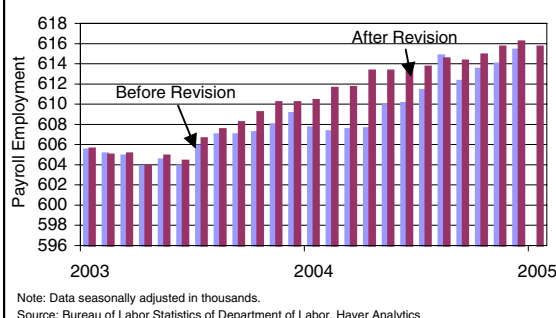


Chart 2: Unemployment Rate Revised Slightly Higher For the Year

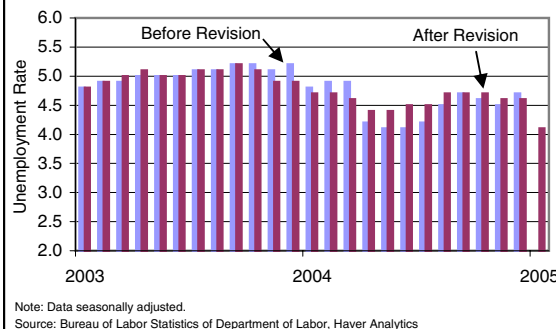
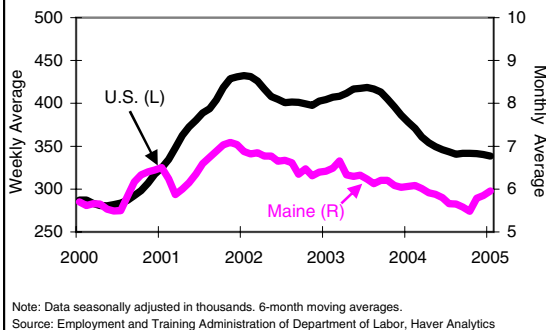


Chart 3: New Unemployment Claims Remain Exceptionally Low and Outperform the Nation



¹Restated payroll employment data cover the period July 2003 through year-end 2004

State Profile

Unemployment insurance claims demonstrate better economic conditions in Maine.

- Initial unemployment insurance claims in Maine continued to decline when measured on a six-month moving average. In doing so, the performance far surpassed that of the nation, although some deterioration in the level of new claims occurred near year-end 2004 (See Chart 3).
- Despite the limited deterioration, the level of new claims is compatible with Maine's continuing employment growth, a likely sign that moderate job increases will occur again this year.

Stable noninterest income is shoring up a modest decline in net income.

- Community banks, like their larger competitors, have been attempting to diversify sources of income through fee and other service revenue generation. Efforts have produced some favorable results, but noninterest income levels remained relatively flat in 2004 (See Chart 4).
 - Gains on loan sales have declined after contributing to noninterest income in 2003. Service charges on deposit accounts are a major source of noninterest income and have been flat perhaps in response to competitive pressures to maintain deposit share.
- Banks are facing increased funding costs.**
- The vast majority of banks have experienced immediate increases in overall interest expense (See Chart 5). The increase in the federal funds rate since June 2004 contributed to higher funding costs.
 - Competition for lower-cost, nonmaturity (demand, savings, and money market deposit accounts) deposits is increasing in the market place as banks position their balance sheets to mitigate the effect of rising interest rates on net interest margins.

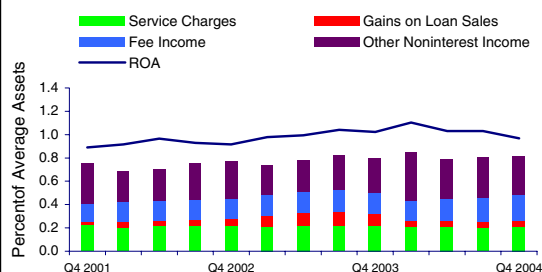
Banks and thrifts reduced their branch networks in Maine, despite positive deposit growth.

- Maine is the only state in New England to see a decline in the number of branches from June 2000 to June 2004, down 1.4 percent to 505. Twelve counties lost branches, two remained the same, and two saw a significant increase in branches (See Map 1). Branch expansion in **Cumberland** (8 percent) and **Knox** (10 percent) far exceeded the national average of 3.9 percent.
- A disincentive to branch expansion lies in the state's low population density. Consequently, the number of households per branch is generally lower than the U.S. average. Using demographic data from Claritas, Maine

averaged 1,073 households per branch, compared with the national average of 1,218.

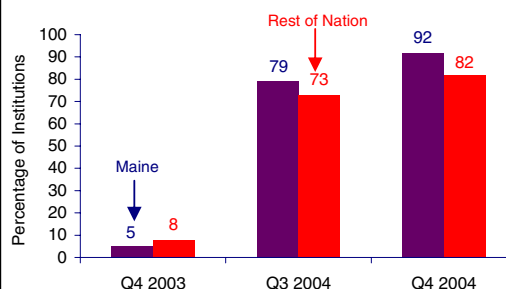
- Real deposits in the state grew 12.5 percent, roughly half the U.S. rate. However, because the number of branches declined, real deposits per branch grew by 14 percent, not too far off the national average of 20 percent.

Chart 4: Slow Growth of Noninterest Income is Hampering Profitability in Community Institutions



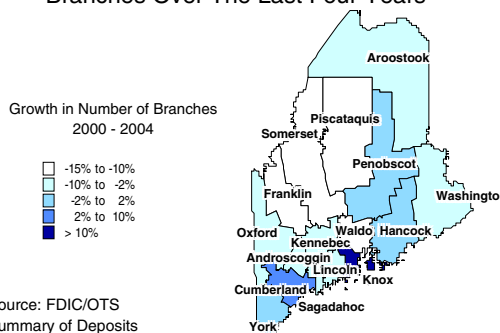
Note: Call filers only with assets <\$1 billion. Excludes specialty institutions and de novos.
Source: FDIC

Chart 5: Most Insured Institutions are Reporting Funding Cost Increases



Note: Funding costs during the quarter compared to prior quarter.
Source: FDIC

Map 1: Maine Has Seen a Decrease in Branches Over The Last Four Years



Source: FDIC/OTS
Summary of Deposits

Maine at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	0.7%	0.1%	-0.2%	2.0%
Manufacturing (10%)	-0.7%	-4.1%	-6.1%	-8.4%	-3.7%
Other (non-manufacturing) Goods-Producing (5%)	-0.2%	2.9%	0.8%	0.8%	3.8%
Private Service-Producing (67%)	1.5%	1.3%	1.2%	0.5%	2.9%
Government (17%)	1.3%	0.7%	0.3%	2.9%	2.3%
Unemployment Rate (% of labor force)	4.6	5.0	4.6	4.3	3.6

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	6.0%	2.9%	5.3%	6.4%
Single-Family Home Permits	27.1%	4.8%	16.6%	11.1%	-8.1%
Multifamily Building Permits	4.3%	12.5%	95.7%	-30.4%	-8.8%
Existing Home Sales	9.2%	11.6%	-2.6%	0.0%	-9.3%
Home Price Index	12.3%	10.9%	10.3%	9.9%	9.1%
Bankruptcy Filings per 1000 people (quarterly level)	0.77	0.87	0.83	0.87	0.76

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	39	40	39	39	41
Total Assets (in millions)	43,004	40,266	36,140	16,322	15,050
New Institutions (# < 3 years)	1	1	0	0	0
Subchapter S Institutions	0	0	0	0	0

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.88	1.06	1.52	1.90	2.05
ALLL/Total Loans (median %)	1.11	1.18	1.19	1.17	1.12
ALLL/Noncurrent Loans (median multiple)	2.87	2.51	1.85	1.61	1.50
Net Loan Losses / Total Loans (median %)	0.05	0.05	0.08	0.11	0.06

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.19	9.27	8.78	8.83	9.13
Return on Assets (median %)	0.95	0.97	0.86	0.77	0.92
Pretax Return on Assets (median %)	1.37	1.41	1.31	1.14	1.35
Net Interest Margin (median %)	3.81	3.91	4.09	3.99	4.06
Yield on Earning Assets (median %)	5.53	5.81	6.73	7.75	8.14
Cost of Funding Earning Assets (median %)	1.78	1.99	2.67	3.79	4.17
Provisions to Avg. Assets (median %)	0.08	0.14	0.14	0.21	0.16
Noninterest Income to Avg. Assets (median %)	0.66	0.69	0.66	0.63	0.57
Overhead to Avg. Assets (median %)	2.96	3.01	3.05	3.23	3.01

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	75.7	72.8	70.0	71.1	70.9
Noncore Funding to Assets (median %)	27.4	23.9	22.5	21.8	21.7
Long-term Assets to Assets (median %, call filers)	27.4	25.7	29.6	25.8	28.1
Brokered Deposits (number of institutions)	16	17	11	10	7
Brokered Deposits to Assets (median % for those above)	3.3	2.3	4.5	1.9	3.5

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	48.5	61.1	64.4	72.7	65.5
Commercial Real Estate	212.6	194.3	180.5	156.5	164.9
<i>Construction & Development</i>	27.4	18.8	15.9	13.4	15.1
<i>Multifamily Residential Real Estate</i>	7.9	8.6	7.5	7.5	7.2
<i>Nonresidential Real Estate</i>	155.3	154.4	156.3	147.8	139.0
Residential Real Estate	437.9	418.5	409.5	398.6	414.4
Consumer	28.0	30.3	39.9	37.0	44.4
Agriculture	4.7	4.4	5.2	7.0	5.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Portland-South Portland-Biddeford, ME	23	7,095	< \$250 mil.	16 (41%)
Bangor, ME	10	1,614	\$250 mil. to \$1 bil.	20 (51.3%)
Lewiston-Auburn, ME	11	1,129	\$1 bil. to \$10 bil.	2 (5.1%)
			> \$10 bil.	1 (2.6%)